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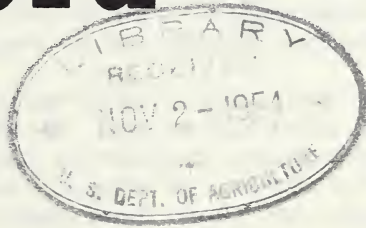
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September 1954

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# Record Of Performance



A Report to the Directors of REA Financed  
Rural Electric Systems,

by

Ancher Nelsen,

Administrator of the

Rural Electrification Administration //

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D E P A R T M E N T O F A G R I C U L T U R E

Record

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Performance

A study in the history of the

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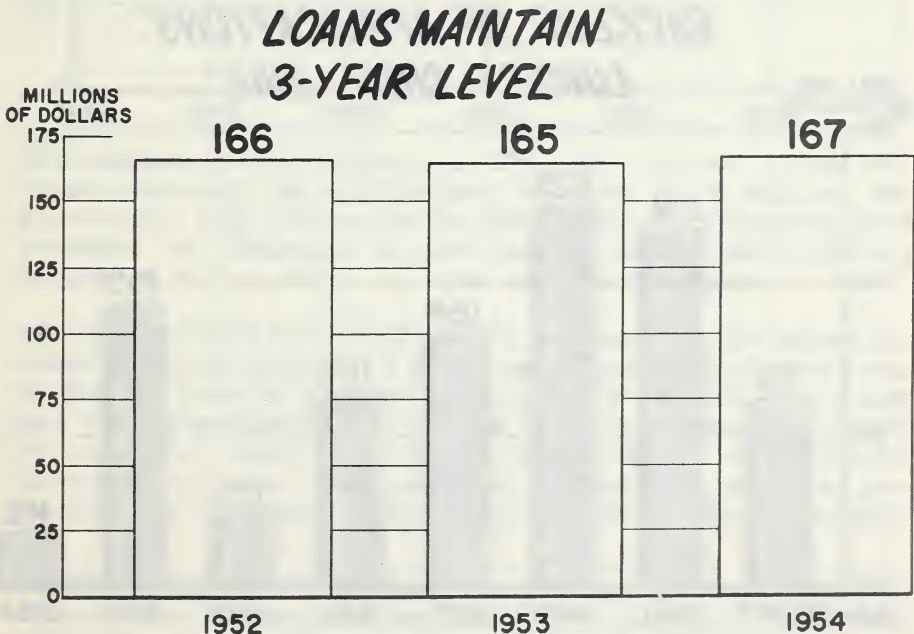
## RECORD OF PERFORMANCE

In the livestock business, the letters R-O-P stand for quality. They mean that an animal--a dairy calf, for example--is backed by a "record of performance," so that you know what you are getting and what you can probably count on in the way of production.

We would like at this time to give you a report of REA's record of performance during the year since your 1953 meetings. At that time, I had been in office only a few months. One of my first acts was to make the rounds on your regional meetings so that I could become acquainted with as many as possible of the people who are the backbone of the rural electrification program. It also seemed that you were entitled to the earliest possible report on our policies and plans.

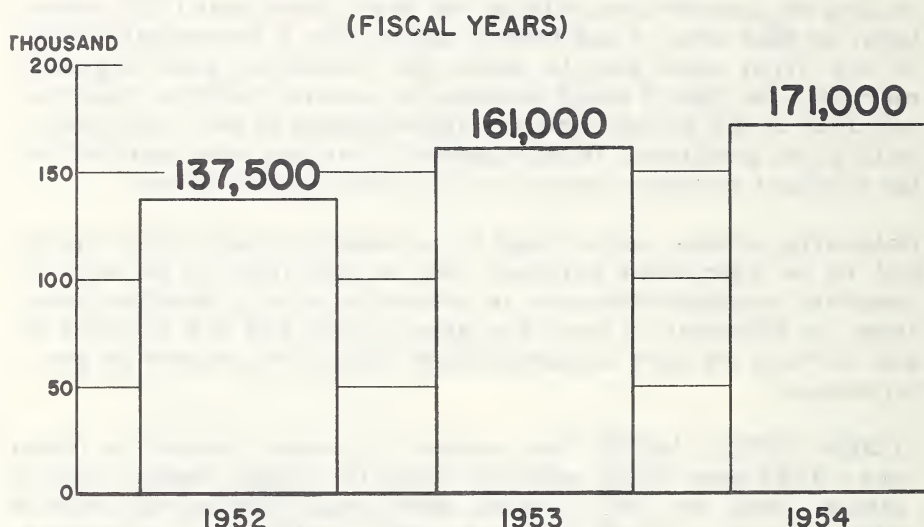
Naturally, at that early stage in our administration the report had to be somewhat general, and we had little in the way of concrete accomplishments on which to report. Now the situation is different. A year has gone by and you are entitled to ask us what we have accomplished. Hence this report on performance.

**LOAN NEEDS MET:** The amount of money loaned in fiscal year 1954 was \$167 million. This is slightly higher than in either 1952 or 1953. Loans were made during the year to 325 borrowers in 40 states to add 170,000 new consumers,

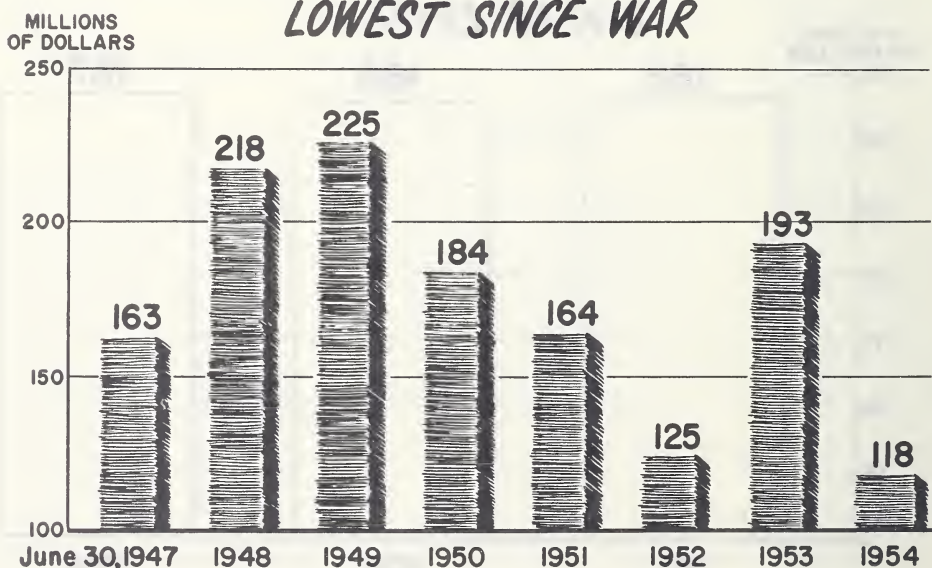


more than in either of the two previous years. This brings the cumulative loan total for the electric program to \$2 billion 886 million. Of this, \$442 million has not yet been advanced and remains available to borrowers to be drawn upon as their needs develop.

## ***CONSUMER CONNECTIONS FINANCED BY LOANS***



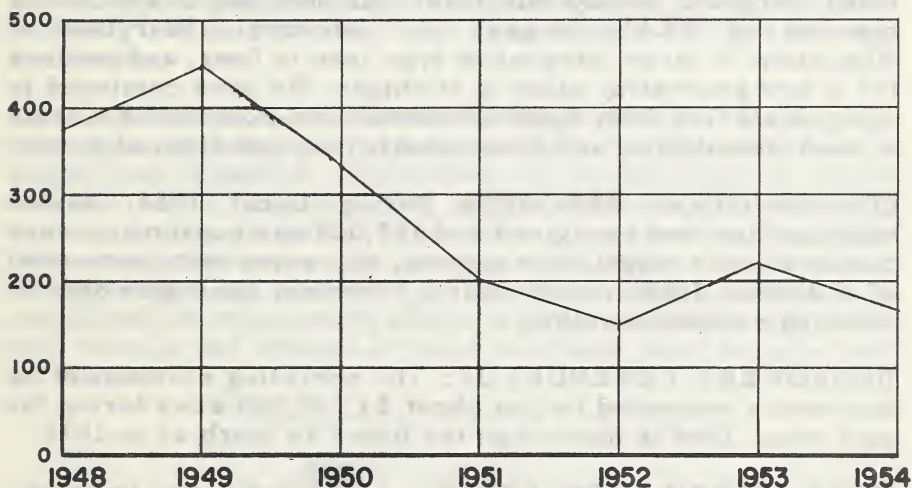
## ***BACKLOG OF APPLICATIONS LOWEST SINCE WAR***



**BACKLOG REDUCED:** During the past fiscal year, we took definite steps to eliminate unnecessary red tape from our lending procedure. Perhaps the most important example of this was the development of a short form procedure for handling many of the loan applications. This is enabling us to give borrowers the speediest possible answers to their loan requests. From the time we took office in April 1953 until June 30, 1954, the backlog of electric loan applications was cut down by more than \$100 million, bringing the total down to \$118 million. This is the lowest since 1947 and it is steadily decreasing toward an all-time record low.

## ***RECENT TREND IN ELECTRIC LOAN APPLICATIONS RECEIVED***

**(IN MILLIONS OF DOLLARS)**



One notable feature about our 1954 loan record is that our loans exceeded the applications received by 8 million. We drew down \$38 million of the \$45 million contingency fund provided by Congress to take care of needs that could not otherwise be met under the state allotment formula.

**2% INTEREST RATE RETAINED:** In line with the Administration's fiscal policies, a study was made during the year as to the 2% interest rate on REA loans. It was our conclusion and recommendation that the 2% rate--even though it might be somewhat less than the present cost of money to the Government--was in the national interest and should be retained. Our recommendation was accepted by the President.

**POWER CONSUMPTION UP:** The average consumer on REA-financed lines consumed over 3,000 kwh last year--more than

three times as much as the annual consumption at the outbreak of World War II. For this power the consumer paid on the average only a little over 2.6 cents per kwh, a reduction of 45% since 1941.

**POWER COSTS DOWN:** The downtrend of the past several years in wholesale cost of power continued. During the 1953 calendar year, the borrowers paid an average of 7.8 mills per kwh for all power purchased from all suppliers. This was slightly less than for the previous year. However, there is a continued uptrend in the cost of power purchased from REA-financed generating systems.

**G & T LOANS CONTINUE:** During the past year, our loans for generation and transmission accounted for a little over 18 percent of all loans made--just about equal to the long-term trend. Included among our loans has been one to expand the capacity of REA's largest G-T borrower--Dairyland of Wisconsin, a large integration type loan in Iowa, and another for a new generating plant in Michigan. We have continued to apply to all G-T loan applications the time-honored REA tests of need, feasibility, and lower cost in the production of power.

**CONSTRUCTION PROGRESS:** During fiscal 1954, 46,000 miles of line was energized and 147,000 new consumers were connected. As might be expected, this represents somewhat of a decline from recent years. However, consumer density remains relatively stable.

**BORROWERS' REVENUES UP:** The operating revenues of the borrowers amounted to just about \$1,000,000 a day during the past year. That is more than ten times as much as in 1941.

**MORE SYSTEM IMPROVEMENT LOANS:** System improvements account for about one-fourth of all our loans made during our first year. This shows alertness on the part of the borrowers to meet the growing needs of their consumers. The percentage will probably grow still further in the years ahead.

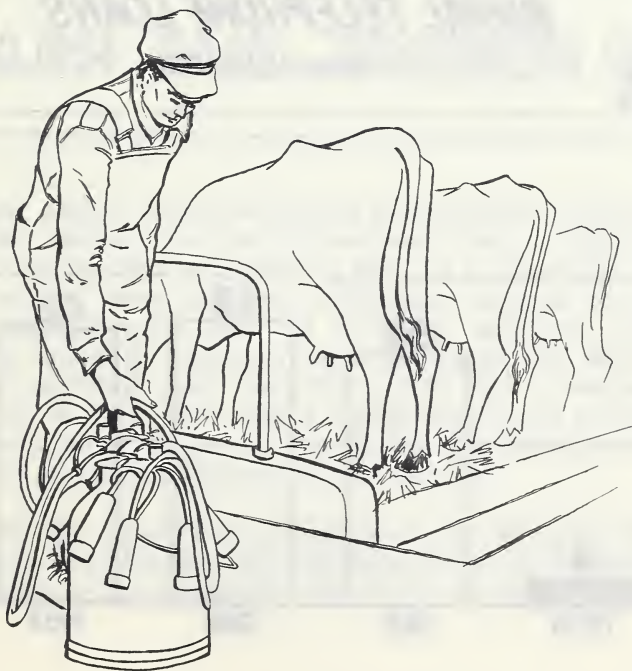
**BORROWERS FINANCES EVALUATED:** Actual delinquency on the part of borrowers has been brought to the lowest point in recent years. As of June 30, we had only 23 borrowers which were behind in their payments, and there were advance payments in the till amounting to \$71 million.

To assure that this record is maintained, much time and attention has been given during the past year to devising a system for identifying those borrowers which appear to face a doubtful financial future. This led to evaluation of each borrower's financial performance in terms of debt service earned ratio. In other words, could it meet debt service if the maximum amount were due today?

On this basis, giving consideration to the age of the borrower's system and to special problems, it has been determined that more than one-fifth of all borrowers have earnings which are inadequate to maintain a sound financial position. The combined indebtedness of these borrowers is about half a billion dollars. Today, REA is giving special attention to these borrowers.

**NEW ACCOUNTING PROCEDURES ADOPTED:** A number of major changes have been made in REA's recommendations to borrowers concerning system accounting. In making these changes, our people worked closely with the management advisory committee of your association. One of the principal changes was to drop the requirement of a fixed depreciation rate for all distribution plant and to recommend instead that each borrower, within the range of accepted standards and based on its own situation, fix its own rate. It appears that this will lead to more realistic depreciation charges by most borrowers.

**ELECTRIC SALES PROGRAM PUSHED:** One of the things we have done to help improve the outlook for those borrowers which face financial difficulties is to undertake an active electric sales program. Our approach to this situation is to encourage the electric cooperatives, the electric equipment firms and the power companies to handle as much of this responsibility as possible. In that way, REA's cost will be small and an even more effective program can be got under way through the efforts of those who have most to gain from its success.

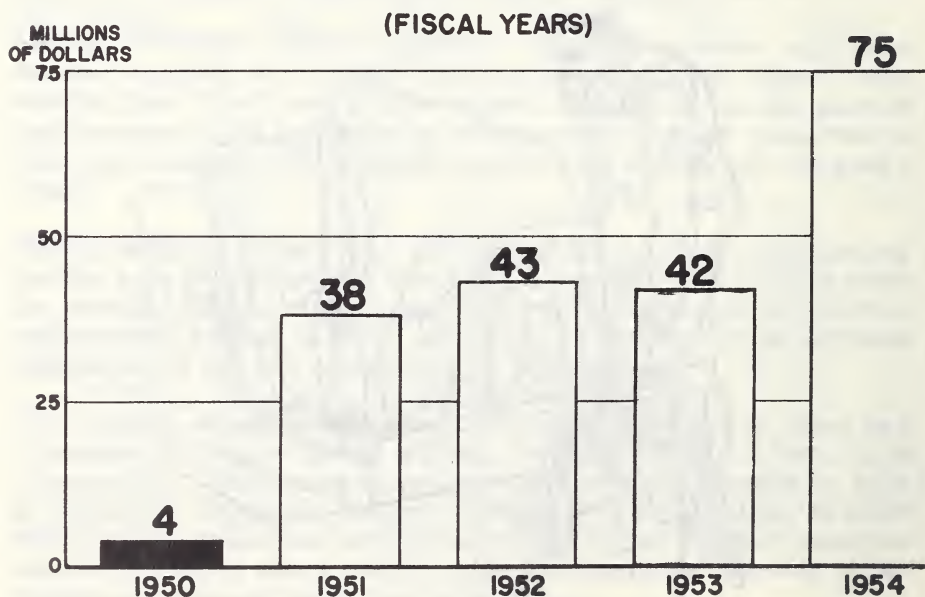


A first step in this program was the organization of the Inter-Industry Farm Electric Utilization Council. This group has held a number of sessions to outline general procedure and national goals and is now sponsoring a series of meetings in the various REA areas to bring in the distributor and dealer organizations. The program appears to offer the electric co-operatives and their national and state organizations a fine opportunity to render a much needed rural service and at the same time ensure the financial stability of the member co-operatives.

**OPERATION AT LESS COST:** We operated REA during the 1954 fiscal year at a cost of \$7,319,500, the lowest figure in the last five years. One of the main ways we accomplished this was to extend the CPA audit and engineering programs to all electric borrowers. We have also been able to tighten up the staffing situation and bring about some procedural improvements that save money in administration of the program.

**ADVISORY COMMITTEES FORMED:** We have formed advisory committees during the past year in both the electric and telephone programs. These committees are made up of people from all segments of the program--direction, management and the technical services, as well. Many of them are active in your organization. Our purpose is to call upon these experienced people when we have basic decisions to make that affect the program. In that way the judgment of people who are doing the job out on the firingline will be reflected in our actions.

## ***RURAL TELEPHONE LOANS***



**RECORD YEAR IN THE TELEPHONE PROGRAM:** The past year has been a banner year for the telephone program. The \$74,000,000 in telephone loan allocations is the highest for any year since the telephone program began in October, 1949. It is nearly double the \$42,000,000 of loan allocations in the previous fiscal year. Also REA telephone borrowers completed more cutovers to modern dial service, built more miles of new line, and connected more subscribers than during the 4 previous years combined. REA now has allocated loan funds to a total of 279 borrowers for the improvement and extension of telephone service in the rural areas of 42 states.

## ***GROWTH OF TELEPHONE PROGRAM IN TERMS OF SUBSCRIBERS***

<b>JUNE 30, 1952</b>	<b>2,000</b>	<b>SUBSCRIBERS SERVED</b>
<b>JUNE 30, 1953</b>	<b>25,000</b>	<b>SUBSCRIBERS SERVED</b>
<b>JUNE 30, 1954</b>	<b>100,000</b>	<b>SUBSCRIBERS SERVED</b>

There is one aspect of the telephone program that particularly involves the people in electrification. That is joint use of facilities. Our people are finding that as a practical matter, you just cannot have a rural telephone system these days without making some use of existing electric facilities because the electric systems have the rights-of-way. In the interest of serving your members and your community, I hope that all of you will give a sympathetic ear to any joint use proposals made to you by any of the telephone borrowers and by other telephone organizations as well.

Aside from the practical advantages of working together where we can, we all have uppermost an interest in seeing that area coverage is accomplished wherever it is practicable.

**THE INTEGRATION APPROACH TO POWER SUPPLY:** The year has witnessed considerable progress in the cooperative efforts of our borrowers and the power companies to get together in meeting power needs through integration of facilities.

Perhaps the outstanding case of that occurred in Kentucky where an agreement has just been reached that brings an end to a power supply disagreement dating back to 1939. When we took office, we found that the plans of the East Kentucky generating and transmission co-op were stymied by court action brought by the power companies. The real losers were the rural people of Kentucky whose power needs were growing without an adequate arrangement being made to take care of them.

The cooperative people asked us for assistance in ending the costly feud and we offered to arrange a meeting. This laid the groundwork for an independent engineering study and for later meetings of the co-op and power company people. It was found that the transmission systems could be dovetailed at a considerable saving in investment for both organizations, and this produced a power cost to the farmer that he could live with. As a result of this agreement, we were able late in August to release a stop order that had held up the advance of more than \$13,000,000 to the East Kentucky Cooperative. The cooperative is now in position to carry out the planned expansion of its power station and complete the transmission network in the area covered by its integration agreement with the power company. One effect of this arrangement is that the Kentucky people will have one of the lowest wholesale rates in the country.

A similar approach is now being applied to a power supply situation in Iowa. Out there, we have just made a loan for new generating capacity to one of the G-T federated cooperatives. The cooperative will not need all of this increased capacity until 1962. But a small unit that would meet the immediate requirements is not as economical to operate. Consequently, the cooperative plans to enter into an agreement with a neighboring power company. Under this agreement, the cooperative will purchase its additional power needs in the next few years from the company. The cooperative will proceed with construction of its new large plant and when it goes into service, several years hence, will repay the power received from the company.

These are examples of two different ways of making the best of the power supply facilities that exist in an area. The fellow who gains in such a case is the farmer who used the electricity and supports his co-op by his purchases of power. Integration

arrangements of this sort help REA's G-T borrowers solve one of their worst problems, that is, the problem of the isolated system with growing peaks and inadequate opportunity to bring about proportionate growth in energy sales. The fact that we have such situations makes it essential, it seems to us, that every G-T loan applicant and REA thoroughly explore the possibility of purchasing power in lieu of generating or interconnecting in lieu of an entirely self-sufficient system. Normally such exploration should begin before the G & T loan application is filed. There would seem to be no point in the possibility of the applicant and of REA spending tens of thousands of dollars in preparing and processing an application if the same results can be achieved by negotiation.

The primary responsibility for such exploration of power supply alternatives rests with the borrower. REA has a responsibility, however, to see that the exploration is actually completed. We will be glad, therefore, to assist to the extent necessary in any negotiations to achieve a full and mutual understanding of the facts as between a borrower and possible power suppliers.

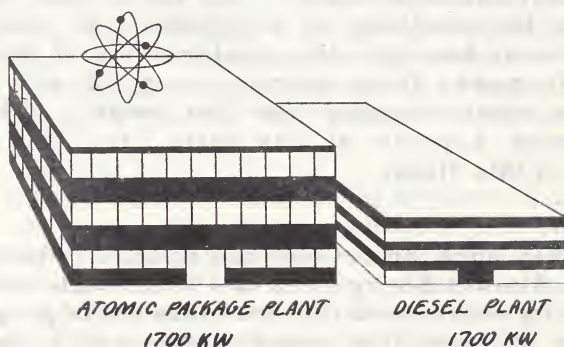
Never should REA or the co-ops lose sight of the fact that the objective of our program is how can we best serve the farmer at the lowest cost.

**POWER FROM ATOMIC ENERGY:** One of the most interesting and potentially far-reaching of all matters to come before us in this past year has been the consideration of the production of electric power from atomic energy. Every one of us can anticipate vital changes--for the better, I hope and believe--in many aspects of our daily life, as a result of developments in this field.

What makes this such an outstanding year, of course, is the passage of the Atomic Energy Act of 1954, which became law on August 30. To understand this measure in its proper light, you must bear in mind that a new atomic energy law had to be passed. The old 1946 Act dealt almost exclusively with military applications. Also we must keep in mind that atomic energy has many peacetime uses apart from the production of electric power. It has great potentialities, for example, in the fields of medicine, industry, and agriculture. In none of these fields could the possibilities be realized until we had a new law that enabled the Government to open up some of its knowledge of the atom to our own people and to the friendly nations which have allied themselves with us in the global struggle against aggression and conquest. As the situation existed, Russia and her satellites actually had more knowledge of the atom than many of the friends of democracy around the world.

The Act was passed after long debate in the Congress and appears to provide a workable pattern through which the rural electric systems can take full advantage of all developments which result in lower costs in the generation of electricity. We must have in mind at all times that this is the basic need of our program to which atomic science can contribute. There is no magic way of drawing electricity directly from fissionable material. Not now or in the foreseeable future. All we can look for, at least at this time, is the possibility of obtaining heat with which to drive conventional generating equipment of the type we are now using on our systems. The task of deriving that heat from processes of nuclear fission is a tremendous one with many problems, the solution of which has not yet been determined.

You can get some idea of the size of the problem by considering what we already know about the 1700 KW atomic power plant--the so-called "package" plant--for which bids are now being sought. On the basis of announcements by the Defense Department and the Atomic Energy Commission, we find that the building to house such a plant would be two to three times as big as the building housing a conventional 1700 KW Diesel unit. Moreover, the atomic plant must be located in an area covering several acres, while the Diesel requires no more land that would be planned around any ordinary industrial building. The cost of these facilities is not known at this time.



Here is obviously something much different from our experiences in the power production field to date. The experimental work is going to be costly. My own study of the situation has convinced me that we will be well advised to let somebody else foot that bill if we can be assured of access to what is developed at the time when it actually proves possible to produce power at lower costs. There can be no doubt that under the new Atomic Energy Act our borrowers have that assurance and protection. By virtue of the new Act, tremendous potentials of research and development will go into motion and as a result, there is no doubt in my mind that eventually all the people will have available to them a lower cost of power.

Meanwhile, it seems to us that the best contribution REA can make immediately in this field is to keep up with the research work as it progresses. The 83rd Congress, at our suggestion, authorized us to go into this field, and we are already doing so. Security clearance has been completed for several of our employees and they are already at work in the atomic energy field. In this way, as actual participants in what is going on, I think we can assure you of good representation in respect of research work of such vital concern to our program.

### Guideposts for the Future

So much for the highlights of what has occurred during the past year. It has been a busy and eventful year. Although I had long been associated with the REA program, I have now seen it from a different viewpoint and I have learned much.

As we look now to the future, let me state certain of my convictions and beliefs which will serve as guidelines to our administration of the program.

**LOAN NEEDS MUST BE MET:** It seems clear that the loan needs of the borrowers are going to continue quite heavy for some years to come. We are meeting those needs and are determined to continue to do so. For the 1955 fiscal year, we will have \$225 million in electric loan funds. Our regular loan authorization is the same as last year--\$135,000,000. Our carryover was \$47 million, and we have a contingency of \$35 million, which we already feel sure will be drawn upon.

**FARM POWER NEEDS MUST BE MET:** The power needs of the program will continue to increase, perhaps not at quite so rapid a rate as in the last few years but at a steady pace nevertheless. Our best estimates, worked out in accordance with figures of the Federal Power Commission and other power agencies, indicate that power needs of the borrowers nationally will double by 1963 and triple by 1975.

REA and its borrowers have a clear responsibility to see that those needs are met and at rates that will encourage full farm use of electricity.

**G-T AUTHORITY IS VITAL:** REA's generation-transmission loan authority is an essential legal authority for REA to have and the wisdom of the Congress in providing it has been amply demonstrated. Such loans have made a definite contribution to the reduction in the farm cost of electricity.

I am convinced that this authority must be preserved and that the best way of preserving it is to use it wisely and well. Used in that way, it can benefit the borrowers and the whole nation.

Used unwisely, it could increase power costs, become a burden to the farmers and discredit the entire program.

**INTEGRATION IS THE KEY TO LOW-COST POWER:** Our experience to date with integration and interconnections of REA borrowers with other types of power suppliers is highly encouraging. It suggests that such arrangements have much to offer in the way of savings.

In seeking such arrangements, borrowers must realize that they are now a major and accepted part of the power industry. Where once they were in a position of weakness and were easily victimized, the picture has altogether changed. The borrowers can now take their place at the conference table in a position of dignity and strength.

**REA MUST BE EFFICIENT:** We must continue to seek ways to improve the efficiency of our operations. Wastefulness in the operation of a government agency is never justified and it is certainly out of place at this time when the national welfare requires that such expenses be pared to the greatest possible degree.

We must always be aware of the fact that one of the greatest challenges facing our program, our people and our country is that we administer our affairs of Government effectively and efficiently and at the same time preserve our financial and economic strength. That strength could well determine our future in the struggle of our way of life with that of the communists.

As far as we can see at this time, we have gone about as far as we should in reducing the staff and curtailing activities. However, we will continually be on the lookout for improvements that need to be made and welcome suggestions from borrowers along this line.

**PROGRAM MUST BE KEPT NON-PARTISAN:** REA has for many years enjoyed support from both of our major political parties. Since I have been in Washington, I have become more convinced than ever that that situation must continue if the program is to prosper and continue in the high esteem of the public.

Since becoming Administrator, I have been guided by that principle. I brought only one new man with me into the Agency and he is the Deputy Administrator. We have made all our placements of people on the basis of making use of the talents of the career people in the program.

I sincerely hope that you people representing the borrowers will continue to avoid partisan political entanglements that could be harmful to both the program and the Nation.

**BORROWERS MUST BECOME SELF-RELIANT.** I hope we can keep on doing more and more to help the cooperatives become more self-reliant and independent. The CPA audit program has been an unqualified success in the electrification program. Not all borrower activities are comparable, but I am sure there are more activities relating to overall program responsibilities which borrower personnel could and should be performing. I have in mind particularly the desirability of directors entering more actively into the long-range decisions that affect the future of the cooperative.

You can hire highly skilled people to manage and operate the borrower systems. You have, in fact, wonderful managers and other staff members throughout the country. But the voice of the farmer, generally speaking, is the director he elected to represent him.



We must never lose sight of the fact that the program was created and is maintained to serve the farmer. If we in REA and you in borrower management keep that fact firmly in mind, I do not think we can go far astray in our decisions.

Your co-op's success today is due to what you have done. Your future will be determined in the same way. The little contribution that Government makes can in no way compare with the effort that you yourselves put into your co-op and your program. That is why your self-reliance is so important to the future of the REA program.





